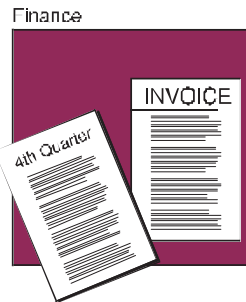




## NEW AUDIT REQUIREMENTS

The Office of Management and Budget (OMB) has increased the threshold for single audits and the Legislature has amended Arizona Revised Statutes (A.R.S.) §15-914 to require certain districts that do not have single audits to have financial statement audits. Effective for fiscal year (FY) 2003-04, OMB has increased the single audit threshold from \$300,000 to \$500,000 of expenditures of federal awards. As a result, many districts that previously had single audits will no longer be required to do so. However, state statute now requires some districts that are not subject to a single audit to have a financial statement audit as follows:



- Districts with a Maintenance and Operation (M&O) Fund adopted expenditure budget of \$2 million or more must have a financial statement audit annually beginning in FY 2003-04.
- Beginning in FY 2004-05, districts that have an M&O Fund adopted expenditure budget of less than \$2 million but more than \$700,000 must have at least a biennial financial statement audit (e.g., an audit of FY 2003-04 and FY 2004-05 performed after the second year).

Districts not required to have an audit are subject to a procedural review at the discretion of the Auditor General.



Districts in a multi-year contract for a single audit that will be below the single audit threshold in any of the remaining years under the contract may submit a contract amendment to our Office to change the type of audit or frequency. Districts may use the sample contract that was issued with USFR Memorandum No. 195. For those districts having a financial statement audit, the contract language should be modified accordingly.

USFR Memorandum No. 204 provides guidance for the new audit requirements and includes a new USFR Compliance Questionnaire to be used for FY 2003-04 audits. The questionnaire has been revised to include guidelines for testing average daily membership, as required by statute, and other minor edits.

## IS YOUR AUDITOR INDEPENDENT?

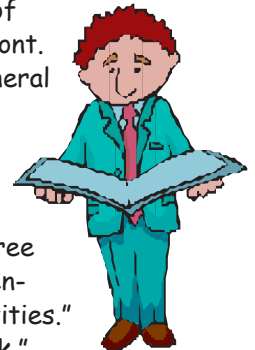
Over the past couple of years, events in corporate accounting have brought the issue of auditor independence to the forefront.

In response, the United States General

Accounting Office has revised Government Auditing Standards

(GAS) regarding auditor independence "to better serve the public interest and to maintain a high degree of integrity, objectivity, and independence for audits of government entities."

GAS, also known as the "Yellow Book," are applicable to single audits as well as the new financial statement audits noted above.



The revised independence requirements are effective for district audits of FY 2003-04. GAS requires an auditor to be independent from a client both in fact and in appearance. This means that auditors:

- Should not perform management functions or make management decisions.
- Should not audit their own work or provide nonaudit services where amounts or services involved are significant to the audit.

Districts should keep this in mind when requesting their auditors to perform additional services. However, maintaining independence is the responsibility of the auditors. Districts should discuss concerns about independence with their auditors before contracting for nonaudit services. You may also contact our Office if you have questions on the new independence requirements.

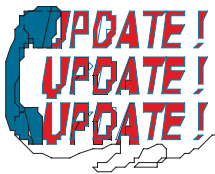
# Questions & Answers

**Question:** Can an hourly employee's pay be prorated so that equal payments are made each pay period over the school year?

**Answer:** No, an hourly employee must be paid only for the hours actually worked during the pay period. If pay is prorated, the District may be paying for hours the employee has yet to work or may not be paying the employee for hours already worked in violation of A.R.S. §23-351(C)(1). For example, an hourly employee is not assigned to work during the District's winter break; however, the employee is paid for the time on break due to the prorated pay. Therefore, the District has in effect paid the employee for hours not yet worked. In another example, if an employee's actual hours worked fluctuate from one pay period to the next, a prorated payment could result in an underpayment of wages beyond the normal payroll cycle. School districts may only hold back wages of hourly employees for actual hours worked during their normal 2-week payroll processing cycle.



## UPDATE ON REIMBURSEMENT OF TRAVEL EXPENSES



The Arizona Department of Administration (DOA) has decided to retain the mileage reimbursement rate of 34.5 cents rather than raise it to the federal rate of 37.5 cents due to the current state budget situation. DOA will advise the Joint Legislative Budget Committee if the mileage rate needs to be increased in the future. Districts should continue to refer to USFR Memorandum No. 176—Reimbursement of Travel Expenses.

## SCHOOL DISTRICT PRO FORMAS

We have revised the Governmental Accounting Standards Board Statement No. 34 (GASB 34) version of our School District Pro Forma Financial Statements and the related notes. Districts implementing GASB 34 should use these for the year ended June 30, 2003. They are available on our Web site. School districts may produce financial statements that vary from these; however, they should be presented in accordance with generally accepted accounting principles. School districts not required to implement GASB 34 until

FY 2003-04, may use the pro forma financial statements available on our website for the year ended June 30, 2001, and change applicable dates for the year ended June 30, 2003.

## USFR CHART OF ACCOUNTS

The USFR Chart of Accounts is based on the federal chart included in the National Center for Education Statistics (NCES) Handbook, *Financial Accounting for Local and State School Systems*. NCES issued a revised handbook in November 2003 that made several changes to the federal chart. Our Office is currently reviewing the changes made to the federal chart and will be updating the USFR Chart of Accounts for these revisions, as appropriate. Changes to the USFR chart and an effective date for such changes will be discussed with the School Finance Advisory Committee before being issued.



## USFR MEMORANDUM UPDATE



Since our last newsletter, we issued seven USFR Memorandums (Nos. 198 through 204) as listed below.

**Memo 198:** Fiscal Year 2003-04 School District Annual Expenditure Budget Forms, Budget Supplement, Budget Summary, Budget Work Sheets, Truth in Taxation Work Sheet, Hearing Notice of Tax Increase, and Instructions (Issued 6/13/03, Supersedes Memo 187)

**Memo 199:** Guidance on Accounting for the Decrease in Fair Value of Investments in State Treasurer's Local Government Investment Pool 5 (Issued 6/30/03)

**Memo 200:** Increased Sealed Bidding Threshold (Issued 7/14/03, Supersedes Memo No. 192)

**Memo 201:** Fiscal Year 2003-04 Revenue Budget Form (Issued 8/15/03, Supersedes Memo 189)

**Memo 202:** Fiscal Year 2002-03 Annual Financial Report and Classroom Site Fund Reporting Forms (Issued 8/15/03, Supersedes Memo 190)

**Memo 203:** Extracurricular Activities Fees Tax Credit (Issued 11/4/03, Supersedes Memo 146)

**Memo 204:** School District Audits (Issued 12/29/03, Amends Memo 195)

If you need a copy of any current USFR Memorandum, please visit our Web site at [www.auditorgen.state.az.us](http://www.auditorgen.state.az.us) or call the Office's Accounting Services Division at (602) 553-0333.